

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017



Independent Auditor's Report

To the Board of Directors of Harmonic Drive Systems Inc.

We have audited the accompanying consolidated financial statements of Harmonic Drive Systems Inc. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 17 "Business combination" to the consolidated financial statements, which describes that the Company acquired additional shares in Harmonic Drive AG on March 22, 2017 and, as a result, Harmonic Drive AG became a consolidated subsidiary from an equity method affiliate. Our opinion is not modified in respect of this matter.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

PricewaterhouseCoopers Aarata LLC

June 23, 2017

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PricewaterhouseCoopers Aarata LLC

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HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2016	2017	2017
Assets:			
Current assets -			
Cash and bank deposits (Notes 9(a) and 11(d))	¥12,876,388	¥12,039,904	\$107,317
Notes and accounts receivable, trade (Note 11(d))	8,397,678	10,813,395	96,384
Marketable securities (Notes 9(a) and 12)	30,688	56,856	506
Finished products	219,052	682,988	6,087
Work in process	783,955	1,552,776	13,840
Raw materials and supplies	904,611	1,492,515	13,303
Deferred tax assets - current (Note 16)	459,309	515,829	4,597
Other current assets	251,006	596,195	5,314
Allowance for doubtful accounts (Note 11(d))	-	(13,712)	(122)
Total current assets	<u>23,922,690</u>	<u>27,736,750</u>	<u>247,230</u>
Fixed assets -			
Tangible fixed assets (Notes 5(b) and 10):			
Buildings and structures	2,702,084	4,259,917	37,970
Machinery and equipment	3,531,584	6,886,979	61,386
Land	1,023,657	1,960,010	17,470
Leased assets	212,474	166,740	1,486
Construction in progress	1,644,672	383,061	3,414
Others	692,853	987,888	8,805
Total tangible fixed assets	<u>9,807,326</u>	<u>14,644,599</u>	<u>130,533</u>
Intangible fixed assets:			
Goodwill (Notes 17(f) and 18(d))	-	33,338,073	297,157
Software	167,803	187,694	1,673
Others	14,166	43,601	388
Total intangible fixed assets	<u>181,969</u>	<u>33,569,369</u>	<u>299,218</u>
Investments and other assets:			
Investment securities (Notes 11(d) and 12)	457,424	668,699	5,960
Investment in affiliated companies (Notes 5(a), 11(d), and 12)	13,166,373	9,775,564	87,134
Net defined benefit assets (Note 14)	1,012,664	933,968	8,324
Deferred tax assets – non-current (Note 16)	29,626	244,516	2,179
Others	177,425	166,578	1,484
Allowance for doubtful accounts	(5,600)	(5,600)	(49)
Total investments and other assets	<u>14,837,914</u>	<u>11,783,726</u>	<u>105,033</u>
Total fixed assets	<u>24,827,209</u>	<u>59,997,695</u>	<u>534,786</u>
Total assets	<u>¥48,749,900</u>	<u>¥87,734,445</u>	<u>\$782,016</u>

The accompanying notes are an integral part of these financial statements.



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2016	2017	2017
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 11(d))	¥2,308,174	¥2,673,078	\$23,826
Short-term borrowings (Notes 11(d) and 22(b))	40,000	15,025,509	133,929
Current portion of long-term debt (Notes 5(b), 11(d) and 22(b))	211,519	191,448	1,706
Lease obligations – current (Note 22(b))	54,452	46,607	415
Accrued income taxes (Note 11(d))	756,273	1,599,892	14,260
Deferred tax liabilities – current (Note 16)	-	6,535	58
Accrued bonuses for employees	808,405	1,040,106	9,270
Accrued bonuses for directors and audit & supervisory board members	178,152	297,393	2,650
Accrued warranty expenses	110,859	99,978	891
Other current liabilities	1,477,057	2,303,525	20,532
Total current liabilities	<u>5,944,892</u>	<u>23,284,075</u>	<u>207,541</u>
Long-term liabilities -			
Long-term debt (Notes 5(b), 11(d) and 22(b))	640,718	449,270	4,004
Lease obligations – non-current (Note 22(b))	160,338	122,322	1,090
Deferred tax liabilities – non-current (Note 16)	2,540,924	2,651,636	23,635
Reserve for retirement benefits for directors and audit & supervisory board members	384,550	1,118,900	9,973
Reserve for retirement benefits for executive officers	72,535	73,188	652
Net defined benefit liabilities (Note 14)	63,351	75,978	677
Other long-term liabilities	51,498	2,558,781	22,807
Total long-term liabilities	<u>3,913,916</u>	<u>7,050,078</u>	<u>62,840</u>
Total liabilities	<u>9,858,808</u>	<u>30,334,153</u>	<u>270,381</u>
Net assets (Note 20):			
Shareholders' equity (Note 8) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding: 94,749,300 shares	1,610,542	1,610,542	14,355
Capital surplus	5,203,709	5,203,709	46,383
Retained earnings	27,892,368	45,884,068	408,985
Treasury stock, at cost	(2,305,055)	(2,305,055)	(20,545)
Total shareholders' equity	<u>32,401,565</u>	<u>50,393,265</u>	<u>449,177</u>
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 12)	4,146,969	5,267,904	46,955
Foreign currency translation adjustments	508,205	(611,107)	(5,447)
Remeasurements of defined benefit plans	65,289	(49,523)	(441)
Total accumulated other comprehensive income	<u>4,720,465</u>	<u>4,607,272</u>	<u>41,066</u>
Non-controlling interests	1,769,060	2,399,753	21,390
Total net assets	<u>38,891,091</u>	<u>57,400,291</u>	<u>511,634</u>
Total liabilities and net assets	<u>¥48,749,900</u>	<u>¥87,734,445</u>	<u>\$782,016</u>

The accompanying notes are an integral part of these financial statements.



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2016	2017	2017
Net sales (Notes 18 and 22(d))	¥28,278,413	¥30,069,057	\$268,019
Cost of sales (Notes 6(b) and 18)	14,992,154	16,202,282	144,418
Gross profit	<u>13,286,259</u>	<u>13,866,775</u>	<u>123,600</u>
Selling, general and administrative expenses (Notes 6(a) and 6(b))	5,667,943	6,052,853	53,951
Operating profit	<u>7,618,315</u>	<u>7,813,921</u>	<u>69,648</u>
Other income:			
Interest income	8,841	10,230	91
Dividend income	234,325	175,308	1,562
Equity in income of affiliated companies	58,635	145,534	1,297
Reversal of allowance for doubtful accounts	30,000	-	-
Others	20,973	39,825	354
	<u>352,776</u>	<u>370,898</u>	<u>3,305</u>
Other expenses:			
Interest expense	11,125	6,698	59
Commission fee	-	30,080	268
Foreign exchange loss	82,476	146,572	1,306
Others	47,675	42,595	379
	<u>141,276</u>	<u>225,947</u>	<u>2,013</u>
Ordinary profit	7,829,815	7,958,872	70,941
Exceptional gains:			
Gain on sales of fixed assets (Note 6(c))	360	1,075	9
Gain on sales of investment securities	1,499	-	-
Gain on step acquisitions	-	13,963,373	124,461
	<u>1,860</u>	<u>13,964,448</u>	<u>124,471</u>
Exceptional losses:			
Loss on disposal of fixed assets (Note 6(d))	27,725	19,116	170
Additional retirement benefits paid for a director	-	29,280	260
	<u>27,725</u>	<u>48,396</u>	<u>431</u>
Income before income taxes	7,803,951	21,874,925	194,981
Income taxes:			
Current	2,283,708	2,388,487	21,289
Deferred	325,240	(411,572)	(3,668)
	<u>2,608,948</u>	<u>1,976,915</u>	<u>17,621</u>
Profit	5,195,002	19,898,009	177,359
Profit attributable to non-controlling interests	<u>193,347</u>	<u>165,964</u>	<u>1,479</u>
Profit attributable to owners of the parent (Notes 20 and 22(d))	<u>¥5,001,654</u>	<u>¥19,732,045</u>	<u>\$175,880</u>

The accompanying notes are an integral part of these financial statements.



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>Thousands of yen</u>		<u>Thousands of U.S.</u>
	<u>For the years ended</u>		<u>dollars (Note 2)</u>
	<u>March 31</u>		<u>For the year ended</u>
	<u>2016</u>	<u>2017</u>	<u>March 31</u>
			<u>2017</u>
Profit	¥5,195,002	¥19,898,009	\$177,359
Other comprehensive income -			
Net unrealized losses (gains) on available-for-sale securities	(2,235,244)	1,120,934	9,991
Foreign currency translation adjustments	(38,787)	(1,113,201)	(9,922)
Remeasurements of defined benefit plans	(133,120)	(130,537)	(1,163)
Equity in other comprehensive loss (income) of an affiliated company accounted for by equity method	(262,176)	(33,572)	(299)
Total other comprehensive loss (income) (Note 7(a))	(2,669,329)	(156,378)	(1,393)
Comprehensive income	¥2,525,672	¥19,741,631	\$175,966
Attributable to -			
owners of the parent	¥2,331,579	¥19,618,852	\$174,871
non-controlling interests	194,093	122,778	1,094

The accompanying notes are an integral part of these financial statements.



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2016	2017	2017
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥1,610,542	¥1,610,542	\$14,355
Balance at the end of the year	<u>1,610,542</u>	<u>1,610,542</u>	<u>14,355</u>
Capital surplus -			
Balance at the beginning of the year	5,203,709	5,203,709	46,383
Balance at the end of the year	<u>5,203,709</u>	<u>5,203,709</u>	<u>46,383</u>
Retained earnings -			
Balance at the beginning of the year	24,356,267	27,892,368	248,617
Changes during the year			
Cash dividends	(1,465,553)	(1,740,345)	(15,512)
Profit attributable to owners of the parent	<u>5,001,654</u>	<u>19,732,045</u>	<u>175,880</u>
Total changes	<u>3,536,101</u>	<u>17,991,700</u>	<u>160,368</u>
Balance at the end of the year	<u>27,892,368</u>	<u>45,884,068</u>	<u>408,985</u>
Treasury stock, at cost -			
Balance at the beginning of the year	(2,305,055)	(2,305,055)	(20,545)
Balance at the end of the year	<u>(2,305,055)</u>	<u>(2,305,055)</u>	<u>(20,545)</u>
Total shareholders' equity -			
Balance at the beginning of the year	28,865,464	32,401,565	288,809
Changes during the year			
Cash dividends	(1,465,553)	(1,740,345)	(15,512)
Profit attributable to owners of the parent	<u>5,001,654</u>	<u>19,732,045</u>	<u>175,880</u>
Total changes	<u>3,536,101</u>	<u>17,991,700</u>	<u>160,368</u>
Balance at the end of the year	<u>¥32,401,565</u>	<u>¥50,393,265</u>	<u>\$449,177</u>
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥6,382,214	¥4,146,969	\$36,963
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>(2,235,244)</u>	<u>1,120,934</u>	<u>9,991</u>
Total changes	<u>(2,235,244)</u>	<u>1,120,934</u>	<u>9,991</u>
Balance at the end of the year	<u>4,146,969</u>	<u>5,267,904</u>	<u>46,955</u>

The accompanying notes are an integral part of these financial statements.



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2016	2017	2017
Accumulated other comprehensive income (continued)			
Foreign currency translation adjustments -			
Balance at the beginning of the year	¥781,690	¥508,205	\$4,529
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>(273,484)</u>	<u>(1,119,313)</u>	<u>(9,976)</u>
Total changes	<u>(273,484)</u>	<u>(1,119,313)</u>	<u>(9,976)</u>
Balance at the end of the year	<u>508,205</u>	<u>(611,107)</u>	<u>(5,447)</u>
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	214,134	65,289	581
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>(148,844)</u>	<u>(114,813)</u>	<u>(1,023)</u>
Total changes	<u>(148,844)</u>	<u>(114,813)</u>	<u>(1,023)</u>
Balance at the end of the year	<u>65,289</u>	<u>(49,523)</u>	<u>(441)</u>
Total Accumulated other comprehensive income			
Balance at the beginning of the year	7,378,040	4,720,465	42,075
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>(2,657,574)</u>	<u>(113,192)</u>	<u>(1,008)</u>
Total changes	<u>(2,657,574)</u>	<u>(113,192)</u>	<u>(1,008)</u>
Balance at the end of the year	<u>4,720,465</u>	<u>4,607,272</u>	<u>41,066</u>
Non-controlling interests:			
Balance at the beginning of the year	1,437,374	1,769,060	15,768
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>331,686</u>	<u>630,692</u>	<u>5,621</u>
Total changes	<u>331,686</u>	<u>630,692</u>	<u>5,621</u>
Balance at the end of the year	<u>1,769,060</u>	<u>2,399,753</u>	<u>21,390</u>
Total net assets:			
Balance at the beginning of the year	37,680,878	38,891,091	346,653
Changes during the year			
Cash dividends	(1,465,553)	(1,740,345)	(15,512)
Profit attributable to owners of the parent	5,001,654	19,732,045	175,880
Net changes in items other than those in shareholders' equity	<u>(2,325,887)</u>	<u>517,499</u>	<u>4,612</u>
Total changes	<u>1,210,213</u>	<u>18,509,200</u>	<u>164,980</u>
Balance at the end of the year	<u>¥38,891,091</u>	<u>¥57,400,291</u>	<u>\$511,634</u>

The accompanying notes are an integral part of these financial statements.



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HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2016	2017	2017
Cash flows from operating activities:			
Income before income taxes	¥7,803,951	¥21,874,925	\$194,981
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	1,524,005	1,774,457	15,816
(Decrease) Increase in allowance for doubtful accounts	(30,000)	1,425	12
Decrease in net defined benefit liabilities	(21,666)	(12,579)	(112)
Increase (Decrease) in reserve for retirement benefits for directors and audit & supervisory board members	36,481	(26,752)	(238)
Increase in reserve for retirement benefits for executive officers	14,727	653	5
Increase in accrued bonuses for directors and audit & supervisory board members	12,816	42,677	380
Increase (Decrease) in accrued warranty expenses	49,976	(26,218)	(233)
Interest income	(8,841)	(10,230)	(91)
Dividend income	(234,325)	(175,308)	(1,562)
Interest expense	11,125	6,698	59
Equity in income of affiliated companies	(58,635)	(145,534)	(1,297)
Gain on sales of investment securities	(1,499)	-	-
Gain on sales of fixed assets	(360)	(1,075)	(9)
Loss on disposal of fixed assets	27,725	19,116	170
Gain on step acquisitions	-	(13,963,373)	(124,461)
Decrease (Increase) in trade receivables	65,537	(643,785)	(5,738)
Increase in inventories	(14,833)	(513,559)	(4,577)
Increase (Decrease) in trade payables	169,124	(138,442)	(1,233)
Others, net	(394,281)	229,666	2,047
Subtotal	8,951,024	8,292,759	73,917
Interest and dividends received	243,336	185,541	1,653
Dividends received from an affiliated company	448,029	546,950	4,875
Interest paid	(11,183)	(6,438)	(57)
Income taxes paid	(3,154,416)	(1,838,850)	(16,390)
Income taxes refunded	22,340	45,740	407
Net cash provided by operating activities	6,499,130	7,225,701	64,405

The accompanying notes are an integral part of these financial statements.



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2016	2017	2017
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(4,286,826)	(3,797,955)	(33,852)
Proceeds from sales of tangible fixed assets	2,387	1,937	17
Payments for purchases of intangible fixed assets	(72,019)	(25,981)	(231)
Proceeds from sales of investment securities	1,500	-	-
Payments for time deposits with a deposit period of over three months	(2,046,559)	(2,017,527)	(17,983)
Proceeds from maturities of time deposits with a deposit period of over three months	1,995,979	2,024,598	18,046
Payments Proceeds for guarantee deposits	(25,763)	(8,010)	(71)
Proceeds from collection of guarantee deposits	7,118	5,358	47
Payments for purchase of shares of subsidiary resulting in change in scope of consolidation (Note 9(b))	-	(28,705,438)	(255,864)
Proceeds from collection of short-term loans receivable	172	-	-
Others, net	30,000	321	2
Net cash used in investing activities	<u>(4,394,009)</u>	<u>(32,522,695)</u>	<u>(289,889)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	690,000	15,065,000	134,281
Repayments of short-term borrowings	(780,000)	(95,000)	(846)
Proceeds from long-term debt	440,000	-	-
Repayments of long-term debt	(202,893)	(211,519)	(1,885)
Repayments of lease obligations	(64,405)	(55,736)	(496)
Cash dividends paid	(1,465,553)	(1,739,812)	(15,507)
Proceeds from stock issuance to non-controlling shareholders	106,757	11,817,369	105,333
Cash dividends paid to non-controlling interests	(108,868)	(131,988)	(1,176)
Net cash provided by(used in) financing activities	<u>(1,384,964)</u>	<u>24,648,312</u>	<u>219,701</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(11,228)</u>	<u>(121,628)</u>	<u>(1,084)</u>
Net increase in cash and cash equivalents	<u>708,927</u>	<u>(770,309)</u>	<u>(6,866)</u>
Cash and cash equivalents at the beginning of year	<u>9,730,247</u>	<u>10,439,174</u>	<u>93,049</u>
Cash and cash equivalents at the end of year (Note 9(a))	<u>¥10,439,174</u>	<u>¥9,668,865</u>	<u>\$86,182</u>

The accompanying notes are an integral part of these financial statements.



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Harmonic Drive Systems Inc. (the “Company”) and its consolidated subsidiaries (collectively referred to as the “Companies”) are engaged in the development, manufacturing and sales of harmonic drive gears and related motion control products. The manufacturing facilities are located in Japan, the United States and Germany and its products are marketed by the Company in Japan, by subsidiaries in the United States and by an affiliated company in Europe.

2. Summary of significant accounting policies:

The accompanying consolidated financial statements of the Companies are prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects with regard to the application and disclosure requirements from International Financial Reporting Standards. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows of the Companies in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain reclassifications are incorporated in order to present the consolidated financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

In the consolidated financial statements, amounts have been rounded down to ¥1 thousand consistent with the original consolidated financial statements in Japanese. As a result, the total shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated, as a matter of arithmetical computation only, at

the rate of ¥112.19 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2017. This translation should not be construed as implying that the yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

(a) Basis of consolidation and accounting for investment in affiliated companies -

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. Consolidated subsidiaries for the years ended March 31, 2016 are as follows:

- HD Systems, Inc.
- HD Logistics, Inc.
- Harmonic Precision Inc.
- Harmonic AD, Inc.
- Harmonic Drive L.L.C.
- Winbel Co., Ltd.
- Harmonic Drive Systems (Shanghai) Co., Ltd.
- SAMICK ADM CO., LTD.

In December 2016, a new 60% owned subsidiary, Godo Kaisha HD Management was established. In addition, the Company's board of directors resolved to acquire additional shares of Harmonic Drive AG, an equity method affiliate, thereby making it a subsidiary together with the nine subsidiaries of the Harmonic Drive AG.

The accounts of Godo Kaisha HD Management, Harmonic Drive AG and its nine subsidiaries are included in the consolidated financial statements together with the eight previously-consolidated subsidiaries for the year ended March 31, 2017.

All significant intercompany transactions, accounts and unrealized intercompany profits are eliminated in consolidation.

The Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is accounted for using the equity method in the consolidated financial statements.

The Company's subsidiaries (HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., and SAMICK ADM CO., LTD., Godo Kaisha HD Management, Harmonic Drive AG and the nine subsidiaries of Harmonic Drive AG) have a year end date of December 31, which differs from that of the Company. The consolidation of the foreign subsidiaries and the application of equity method for the investment in the affiliated company are based on the respective financial statements of these entities for the year ended December 31. Any material transactions occurring

during the period from January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(b) Valuation basis and method for major assets -

① Marketable securities and investment securities:

Realized gains and losses on sales of those securities are determined using the moving average method and are reflected in the consolidated statements of income. Available-for-sale securities with market quotations are stated at fair value, with net unrealized gains or losses being reported as a separate component of net assets on a net-of-tax basis. Those securities without market quotations are stated at cost using the moving average method.

② Receivables and payables derived from derivatives:

All receivables and payables derived from derivatives are stated at fair value.

③ Inventories:

Finished products, work in process and raw materials are stated at moving average cost (reflecting the write down of their book value to the net selling value regarded as decreased profitability of any product, if any). Supplies are stated at cost, being determined by the last purchase price method.

(c) Depreciation and amortization method of depreciable assets -

① Tangible fixed assets (excluding leased assets):

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance and repairs, as well as minor renewals and improvements, are charged to income as incurred. Depreciation is computed using the declining balance method for the Company and its domestic subsidiaries, with the exception of buildings acquired on or after April 1, 1998, and accompanying facilities and structures acquired on or after April 1, 2016, respectively, which are depreciated using the straight-line method. For the foreign subsidiaries, depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

② Intangible fixed assets (excluding leased assets):

Amortization is calculated based on the straight-line method. Software for in-house

use is amortized based on the straight-line method over the expected useful life of 5 years.

③ Leased assets:

Depreciation of leased assets, other than those of which ownership is deemed to be transferred to the lessee, is computed based on the straight-line method over the lease period with no residual value.

(d) Accounting for deferred charges -

Stock issue costs are not capitalized, but expensed as incurred.

(e) Basis for recording provisions -

① Allowance for doubtful accounts:

The allowance for doubtful accounts is comprised of a general reserve based on historical bad debt experience and a specific reserve for doubtful receivables considered by management to be irrecoverable.

② Accrued bonuses for employees:

The Company and its domestic subsidiaries provide accrued bonuses for the expected payments of employee bonuses attributable to the current year.

③ Accrued bonuses for directors and audit & supervisory board members:

The Company and its domestic subsidiaries provide an accrual for the estimated bonuses to directors and audit & supervisory board members attributable to the current year.

④ Accrued warranty expenses:

The Company and its domestic subsidiaries provide a reserve for warranty expenses based on the estimated warranty expenses to be incurred in the future.

⑤ Reserve for retirement benefits for directors and audit & supervisory board members:

In accordance with the Companies' internal rule for retirement benefits for directors and audit & supervisory board members, the reserve for retirement benefits for

directors and audit & supervisory board members of the Companies is calculated at the amount that would have been payable if all directors and audit & supervisory board members had retired at the balance sheet date.

⑥ Reserve for retirement benefits for executive officers:

In accordance with the Companies' internal rule for retirement benefits for executive officers, the reserve for retirement benefits for executive officers of the Companies is calculated at the amount that would have been payable if all executive officers had retired at the balance sheet date.

(f) Accounting method for retirement benefits for employees -

The balance of retirement benefits for employees of the Company and its domestic subsidiaries represents the difference between the estimated present value of projected benefit obligations and the fair value of the plan assets. If the fair value of the plan assets exceeds the estimated present value of projected benefit obligations, such excess is recorded as net defined benefit assets, while if the estimated present value of projected benefit obligations exceeds the fair value of plan assets, such excess is recorded as net defined benefit liabilities. With regard to the calculation of defined benefits plan obligations, the benefit formula basis was used to attribute projected benefit obligations to the period up to the end of this year. Past service costs are mainly amortized over a period of 3 years from the year in which they occur. Actuarial differences are amortized on a straight-line basis over 3 years, mainly starting from the year following that in which they occur. Unrecognized actuarial differences and unrecognized past service costs, net of the related income taxes, have been recognized as "Remeasurements of defined benefit plans" of "Accumulated other comprehensive income" within the net assets section. Certain domestic subsidiaries have adopted the simplified accounting method in the calculation of their defined benefits plan obligations.

(g) Foreign currency translation -

Assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, net asset accounts are translated at historical rates, and all income and expense accounts are translated at the average exchange rate during the year. Foreign currency translation adjustments resulting from such translation are recorded as a separate component of net assets in the

consolidated balance sheets.

(h) Amortization of goodwill and negative goodwill -

Goodwill is amortized using the straight-line method over a period within 20 years.

(i) Cash and cash equivalents -

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash and are so close to their maturities that they present an insignificant risk of changes in value.

(j) Consumption tax -

The consumption tax withheld upon sales of goods and the consumption tax paid upon purchases of goods and services by the Company and its domestic subsidiaries are not included in revenue and cost or expense items, respectively, in the accompanying consolidated statements of income.

3. Accounting changes:

(a) Adoption of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 -

Effective from the year ended March 31, 2017, the Company has applied "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No.32, issued on June 17, 2016) as a result of revisions to the Corporation Tax Act and changed the depreciation method for buildings and accompanying facilities and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

Effects of this change to Operating profits, Ordinary Profits and Income before Income Taxes for the period are immaterial.

4. Additional information:

(a) Application of the Implementation Guidance on Recoverability of Deferred Tax Assets:

Effective from the year ended March 31, 2017, the "Implementation Guidance on

Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, issued on March 28, 2016) has been applied.

5. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2016 and 2017 was as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2016</u>	<u>2017</u>	<u>2017</u>
Investment in affiliated companies	<u>¥4,918,983</u>	<u>¥143,814</u>	<u>\$1,281</u>

(b) Assets pledged as collateral and related secured liabilities -

The following assets were pledged as collateral to secure the long-term debt, including the current portion thereof, at March 31, 2016 and 2017:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2016</u>	<u>2017</u>	<u>2017</u>
Buildings	¥27,209	¥25,558	\$227
Land	<u>33,146</u>	<u>33,146</u>	<u>295</u>
	<u>¥60,356</u>	<u>¥58,704</u>	<u>\$523</u>
Secured long-term debt:			
Current portion of long-term debt	¥4,021	¥2,628	\$23
Long-term debt	<u>5,371</u>	<u>2,743</u>	<u>24</u>
	<u>¥9,392</u>	<u>¥5,371</u>	<u>\$47</u>

(c) Credit facility contracts -

The Company entered into credit facility contracts with its main banks.

The balance of unused portion based on the contracts at March 31, 2016 and 2017 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Total of credit facility contracts	¥5,000,000	¥7,269,950	\$64,800
Outstanding	-	27,494	245
The balance of unused credit facilities	<u>¥5,000,000</u>	<u>¥7,242,456</u>	<u>\$64,555</u>

6. Notes to consolidated statements of income:

(a) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2016 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Salaries and bonuses	¥1,802,547	¥1,916,797	\$17,085
Accrued bonuses for directors and audit & supervisory board members	199,616	228,477	2,036
Retirement benefit expenses	(10,557)	11,179	99
Reserve for retirement benefits for directors and audit & supervisory board members	36,481	37,727	336
Reserve for retirement benefits for executive officers	18,627	19,673	175
Research and development expenses	1,369,366	1,333,927	11,889

(b) Research and development expenses -

Research and development expenses, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥1,404,658 thousand and ¥1,383,313 thousand (\$12,330 thousand) for the years ended March 31, 2016 and 2017, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets by fixed assets category for the years ended March 31, 2016 and 2017 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Gain on sales of:			
Machinery and equipment	¥ 360	¥ 1,032	\$ 9
Tools, furniture and fixtures	-	43	0
	<u>¥ 360</u>	<u>¥ 1,075</u>	<u>\$ 9</u>

(d) Loss on disposal of fixed assets -

Loss on disposal of fixed assets by fixed assets category for the years ended March 31, 2016 and 2017 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Loss on disposal of:			
Buildings and structures	¥ 20,730	¥ 11,667	\$ 103
Machinery and equipment	4,412	4,843	43
Tools, furniture and fixtures	2,581	2,605	23
	<u>¥ 27,725</u>	<u>¥ 19,116</u>	<u>\$ 170</u>

7. Notes to consolidated statements of comprehensive income:

(a) Recycling adjustments and related tax effect related to other comprehensive income -

Recycling adjustments and related tax effect related to other comprehensive income for the years ended March 31, 2016 and 2017 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2016</u>	<u>2017</u>	<u>U.S. dollars</u>
			<u>2017</u>
Net unrealized losses (gains) on available-for-sale securities			
Changes arising during the year	(¥ 3,415,349)	¥ 1,595,634	\$ 14,222
Recycling adjustments	-	-	-
Before tax effect	(3,415,349)	1,595,634	14,222
Tax effect	1,180,104	(474,700)	(4,231)
Net unrealized losses (gains) on available-for-sale securities	(2,235,244)	1,120,934	9,991
Foreign currency translation adjustments			
Changes arising during the year	(38,787)	(1,113,201)	(9,922)
Remeasurements of defined benefit plans			
Changes arising during the year	(¥ 37,409)	(¥ 104,505)	(\$ 931)
Recycling adjustments	(161,055)	(83,655)	(745)
Before tax effect	(198,464)	(188,160)	(1,677)
Tax effect	65,343	57,622	513
Net unrealized losses (gains) on available-for-sale securities	(133,120)	(130,537)	(1,163)
Equity in other comprehensive loss (income) of an affiliated company accounted for by the equity method			
Changes arising during the year	(¥ 262,176)	(¥ 44,965)	(\$ 400)
Recycling adjustments	-	11,392	101
Equity in other comprehensive loss (income) of an affiliated company accounted for by the equity method	(262,176)	(33,572)	(299)
Total other comprehensive loss (income)	<u>(¥ 2,669,329)</u>	<u>(¥ 156,378)</u>	<u>(\$ 1,393)</u>

8. Notes to consolidated statements of changes in net assets:

(a) Shares issued and outstanding-

<u>Share type</u>	<u>April 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2016</u>
Common stock (shares)	<u>94,749,300</u>	<u>-</u>	<u>-</u>	<u>94,749,300</u>

<u>Share type</u>	<u>April 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2017</u>
Common stock (shares)	<u>94,749,300</u>	<u>-</u>	<u>-</u>	<u>94,749,300</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2016</u>
Common stock (shares)	<u>3,152,193</u>	<u>-</u>	<u>-</u>	<u>3,152,193</u>

<u>Share type</u>	<u>April 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2017</u>
Common stock (shares)	<u>3,152,193</u>	<u>-</u>	<u>-</u>	<u>3,152,193</u>

(c) Stock subscription rights -

The Company had no stock subscription rights at March 31, 2016 and 2017.

(d) Dividends -

For the year ended March 31, 2016:

- ① Dividends paid during the current year -
- (i) The following was resolved by the annual shareholders' meeting held on June 19, 2015:
- | | |
|--|----------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥641,179 |
| Cash dividend per share
(Yen) | ¥7 |
| Record date | March 31, 2015 |
| Declaration date | June 22, 2015 |
- (ii) The following was determined by the board of directors meeting held on November 11, 2015:
- | | |
|--|--------------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥824,373 |
| Cash dividend per share
(Yen) | ¥9 |
| Record date | September 30, 2015 |
| Declaration date | December 7, 2015 |
- ② Dividends for the current year that are to be paid after the balance sheet date -
- The following was resolved by the annual shareholders' meeting held on June 17, 2016:
- | | |
|--|-------------------|
| Type of shares | Common stock |
| Resource of the dividends to be paid | Retained earnings |
| The total amount of the dividends in cash paid
(Thousands of yen) | ¥824,373 |
| Cash dividend per share
(Yen) | ¥9 |
| Record date | March 31, 2016 |
| Declaration date | June 20, 2016 |

For the year ended March 31, 2017:

①	Dividends paid during the current year -	
	(i) The following was resolved by the annual shareholders' meeting held on June 17, 2016:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥824,373
	(Thousands of U.S. dollars)	\$7,348
	Cash dividend per share	
	(Yen)	¥9
	(U.S. dollars)	\$0.08
	Record date	March 31, 2016
	Declaration date	June 20, 2016
	(ii) The following was determined by the board of directors meeting held on November 4, 2016:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥915,971
	(Thousands of U.S. dollars)	\$8,164
	Cash dividend per share	
	(Yen)	¥10
	(U.S. dollars)	\$0.08
	Record date	September 30, 2016
	Declaration date	December 5, 2016
②	Dividends for the current year that are to be paid after the balance sheet date -	
	The following was resolved by the annual shareholders' meeting held on June 14, 2017:	
	Type of shares	Common stock
	Resource of the dividends to be paid	Retained earnings
	The total amount of the dividends in cash paid	
	(Thousands of yen)	¥915,971
	(Thousands of U.S. dollars)	\$8,164
	Cash dividend per share	
	(Yen)	¥10
	(U.S. dollars)	\$0.08
	Record date	March 31, 2017
	Declaration date	June 15, 2017

9. Notes to consolidated statements of cash flows:

(a) Cash and cash equivalents -

Cash and cash equivalents, for the purpose of the consolidated statements of cash flows, at March 31, 2016 and 2017 were comprised of the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2016</u>	<u>2017</u>	<u>U.S. dollars</u>
			<u>2017</u>
Cash and bank deposits	¥12,876,388	¥12,039,904	\$107,317
Highly liquid investments	30,688	56,856	506
Time deposits with a deposit period of over three months	<u>(2,467,901)</u>	<u>(2,427,895)</u>	<u>(21,640)</u>
Cash and cash equivalents	<u>¥10,439,174</u>	<u>¥9,668,865</u>	<u>\$86,182</u>

(b) Details of assets and liabilities of the newly consolidated subsidiary due to the acquisition of shares -

Below are details of the assets and liabilities of the newly consolidated subsidiary, Harmonic Drive AG, which was an equity method affiliate before the acquisition, at the time of its consolidation resulting from the acquisition of shares, together with the relationship between the acquisition cost of shares and expenditures (net) for its acquisition, are presented below.

	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
Current assets	¥4,280,792	\$38,156
Fixed assets	2,822,314	25,156
Current liabilities	(1,375,576)	(12,261)
Long-term liabilities	(930,502)	(8,293)
Non-controlling interests	23,247	207
Foreign currency translation adjustments	396,460	3,533
Goodwill	33,338,073	297,157
Investment by non-controlling interests	11,269,207	100,447
Gain on step acquisitions	(13,963,373)	(124,461)
Investment valuation by the equity method until the time of acquisition of control	<u>(4,392,843)</u>	<u>(39,155)</u>
Acquisition cost of shares	31,467,800	280,486
Account payable, etc.	(1,913,848)	(17,058)
Cash and cash equivalents owned by Harmonic Drive AG	<u>(848,512)</u>	<u>(7,563)</u>
Expenditures (net) for acquisition	<u>¥28,705,438</u>	<u>\$255,864</u>

10. Lease transactions (as lessee):

(a) Leased assets capitalized on the consolidated balance sheets -

Finance leased assets are mainly machinery and equipment. Depreciation expenses are calculated based on the straight-line method over the lease period, assuming no residual asset value at the end of the lease period.

(b) Operating lease transactions -

Future operating lease payments under non-cancelable lease contracts as of March 31, 2016 and 2017 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Due within 1 year	¥71,325	¥54,138	\$482
Due after 1 year	25,825	68,031	606
	<u>¥97,151</u>	<u>¥122,170</u>	<u>\$1,088</u>

11. Financial instruments:

(a) Policy for financial instruments -

The Companies invest excess funds, if any, in high quality and low risk financial instruments, while the Companies raise funds (necessary for business operations) through loans from financial institutions.

The Companies utilize derivative financial instruments such as foreign exchange forward contracts in order to reduce their exposure to fluctuations in foreign currency exchange rates during the normal course of business operations and do not hold or issue financial instruments for trading or speculative purposes.

(b) Description and risks of financial instruments and risk management for financial instruments -

Notes and accounts receivable, trade is exposed to customer credit risk. To mitigate the credit risk, the Companies control the collection terms, the receivable balances and the credit limits for each customer and monitor the financial conditions of the major customers periodically in accordance with the internal customer credit management rules. The trade receivables denominated in foreign currencies are exposed to the risk resulting from fluctuations in foreign currency exchange rates, but to hedge foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. As the Companies enter into the foreign exchange forward contracts with the financial institutions with high credit ratings in accordance with the internal rules on assignment of authority and responsibility, the Companies believe it is exposed to almost no contractual default risk.

Marketable securities are short-term investment bonds which have almost no credit risk, and investment securities, consisting primarily of the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically monitoring market prices.

Notes and accounts payable, trade is due within one year.

Short-term borrowings and long-term debt are used to raise funds mainly for acquisition cost of a subsidiary and operating transactions. Floating-rate debt is exposed to the risk of fluctuations in interest rates.

Trade payables, and short-term borrowings and long-term debt are exposed to liquidity risk and the Companies monitor and manage that risk continuously in ways such as preparing cash flow projections periodically.

(c) Supplemental information on the fair value of financial instruments -

The notional amount of the derivative transactions discussed in “(d) Fair value of financial instruments” below is not indicative of the market risk associated with derivative transactions.

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheets, the fair value and the variance as of March 31, 2016 and 2017. Financial instruments, for which the fair value is difficult to determine, are not included in the following table (See (Note 2) below for additional information.).

	Thousands of yen		
	Carrying amount	Fair value	Variance
March 31, 2016:			
(1) Cash and bank deposits	¥12,876,388	¥12,876,388	¥ -
(2) Notes and accounts receivable, trade	8,397,678	8,397,678	-
(3) Investment securities			
Available-for-sale securities	453,624	453,624	-
(4) Investment in affiliated companies			
Available-for-sale securities	8,247,390	8,247,390	-
Assets total	<u>¥29,975,080</u>	<u>¥29,975,080</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,308,174	¥2,308,174	¥ -
(2) Accrued income taxes	756,273	756,273	-
(3) Short-term borrowings	40,000	40,000	-
(4) Current portion of long-term debt	211,519	211,519	-
(5) Long-term debt	640,718	640,718	-
Liabilities total	<u>¥3,956,684</u>	<u>¥3,956,684</u>	<u>¥ -</u>
Derivative transactions	<u>(¥ 3,749)</u>	<u>(¥ 3,749)</u>	<u>¥ -</u>

March 31, 2017:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥12,039,904	¥12,039,904	¥ -
(2) Notes and accounts receivable, trade	10,813,395		
Allowance for doubtful accounts (*1)	(13,712)		
	<u>10,799,683</u>	<u>10,799,683</u>	-
(3) Investment securities			
Available-for-sale securities	664,899	664,899	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>9,631,750</u>	<u>9,631,750</u>	-
Assets total	<u>¥33,136,236</u>	<u>¥33,136,236</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,673,078	¥2,673,078	¥ -
(2) Accrued income taxes	1,599,892	1,599,892	-
(3) Short-term borrowings	15,025,509	15,025,509	-
(4) Current portion of long-term debt	191,448	191,448	-
(5) Long-term debt	<u>449,270</u>	<u>449,270</u>	-
Liabilities total	<u>¥19,939,197</u>	<u>¥19,939,197</u>	<u>¥ -</u>
Derivative transactions	<u>(¥ 81,532)</u>	<u>(¥ 81,532)</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
March 31, 2017:	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$107,317	\$107,317	\$ -
(2) Notes and accounts receivable, trade	96,384		
Allowance for doubtful accounts (*1)	(122)		
	<u>96,262</u>	<u>96,262</u>	-
(3) Investment securities			
Available-for-sale securities	5,926	5,926	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>85,852</u>	<u>85,852</u>	-
Assets total	<u>\$295,358</u>	<u>\$295,358</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$23,826	\$23,826	\$ -
(2) Accrued income taxes	14,260	14,260	-
(3) Short-term borrowings	133,929	133,929	-
(4) Current portion of long-term debt	1,706	1,706	-
(5) Long-term debt	<u>4,004</u>	<u>4,004</u>	-
Liabilities total	<u>\$177,727</u>	<u>\$177,727</u>	<u>\$ -</u>
Derivative transactions	<u>(\$ 726)</u>	<u>(\$ 726)</u>	<u>\$ -</u>

(*1) For the calculation of the fair value of notes and accounts receivable, trade, allowances for doubtful accounts relating to these receivables are deducted.

(Note 1) Method for calculating the fair value of financial instruments, and matters related to securities and derivative transactions.

Assets

(1) Cash and bank deposits

The carrying amount approximates the fair value due to the short maturities of all bank deposits.

(2) Notes and accounts receivable, trade

The carrying amount approximates the fair value since notes and accounts receivable, trade are settled within a short period.

(3) Investment securities

The fair value is measured at the quoted market price of the stock exchange.

See “Note 12. Marketable securities and investment securities” for the footnote information by holding purpose.

(4) Investment in affiliated companies

The fair value is measured at the quoted market price of the stock exchange.

See “Note 12. Marketable securities and investment securities” for the footnote information by holding purpose.

Liabilities

(1) Notes and accounts payable, trade, (2) Accrued income taxes and (3) Short-term borrowings

The carrying amount approximates the fair value since notes and accounts payable, trade, accrued income taxes and short-term borrowings are settled within a short period.

(4) Current portion of long-term debt and (5) Long-term debt

The fair value is determined by discounting the sum of the principal and interest using the interest rate assumed to be applied to the new debt with the same conditions. However, the fair value of long-term debt with a variable interest rate is deemed to approximate the carrying amount because the contracted interest rate is periodically renewed reflecting the current market interest rate.

Derivative transactions

See “Note 13. Derivative financial instruments”.

(Note 2) Financial instruments, of which the fair value is difficult to determine.

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$33</u>
Investment in affiliated companies			
Unlisted equity securities	<u>4,918,983</u>	<u>143,814</u>	<u>\$1,281</u>

Unlisted equity securities are not included in “(3) Investment securities” and “(4) Investment in affiliated companies” in the first table above because their fair values are difficult to determine since such securities do not have available market prices and the related future cash flows cannot be estimated.

(Note 3) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2016 and 2017 are as follows:

	Thousands of yen			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2016:				
Cash and bank deposits	¥12,876,388	-	-	-
Notes and accounts receivable, trade	<u>8,397,678</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥21,274,066</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Thousands of yen			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2017:				
Cash and bank deposits	¥12,039,904	-	-	-
Notes and accounts receivable, trade	<u>10,813,395</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥22,853,299</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2017:				
Cash and bank deposits	\$ 107,317	-	-	-
Notes and accounts receivable, trade	96,384	-	-	-
	<u>\$ 203,701</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2016 and 2017 are as follows:

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2016:						
Long-term debt	¥211,519	¥191,448	¥186,108	¥121,129	¥71,856	¥70,177
Total	<u>¥211,519</u>	<u>¥191,448</u>	<u>¥186,108</u>	<u>¥121,129</u>	<u>¥71,856</u>	<u>¥70,177</u>

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2017:						
Long-term debt	¥191,448	¥186,108	¥119,777	¥73,208	¥70,177	¥ -
Total	<u>¥191,448</u>	<u>¥186,108</u>	<u>¥119,777</u>	<u>¥73,208</u>	<u>¥70,177</u>	<u>¥ -</u>

	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2017:						
Long-term debt	\$1,706	\$1,658	\$1,067	\$652	\$625	\$ -
Total	<u>\$1,706</u>	<u>\$1,658</u>	<u>\$1,067</u>	<u>\$652</u>	<u>\$625</u>	<u>\$ -</u>

12. Marketable securities and investment securities:

The aggregate cost, gross unrealized gains and losses, and carrying amount on the consolidated balance sheets (which are re-valued to the related fair value) of available-for-sale securities with market quotations at March 31, 2016 and 2017 were as follows:

	Thousands of yen			
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
March 31, 2016				
Equity securities	<u>¥2,716,931</u>	<u>5,984,083</u>	<u>-</u>	<u>¥8,701,014</u>
	Thousands of yen			
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
March 31, 2017				
Equity securities	<u>¥2,716,931</u>	<u>7,579,718</u>	<u>-</u>	<u>¥10,296,649</u>
	Thousands of U.S. dollars			
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
March 31, 2017:				
Equity securities	<u>\$24,217</u>	<u>67,561</u>	<u>-</u>	<u>\$91,778</u>

In the cases where the fair value of securities is lower than the carrying value by 30% or more, and recovery of the fair value to the carrying value is not deemed possible in the foreseeable future, impairment losses are recognized in the consolidated statement of income for that period. There are no impairment losses on available-for-sale securities with market quotations for the years ended March 31, 2016 and 2017.

13. Derivative financial instruments:

(a) Notional amount, fair value and gains (losses) of derivative transactions for which hedge accounting was not adopted -

Thousands of Yen				
March 31, 2016	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell Korean Won	¥289,070	¥ -	(¥3,749)	(¥3,749)
	<u>¥289,070</u>	<u>¥ -</u>	<u>(¥3,749)</u>	<u>(¥3,749)</u>

Thousands of Yen				
March 31, 2017	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollars	¥191,446	¥ -	¥ 3,383	¥3,383
Korean Won	265,740	-	(33,879)	(33,879)
Buy Japanese Yen	734,524	-	(51,036)	(51,036)
	<u>¥1,191,710</u>	<u>¥ -</u>	<u>(¥81,532)</u>	<u>(¥81,532)</u>

Thousands of U.S. Dollars				
March 31, 2017	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollars	\$1,706	\$ -	\$30	\$30
Korean Won	2,368	-	(301)	(301)
Buy Japanese Yen	6,547	-	(454)	(454)
	<u>\$10,622</u>	<u>\$ -</u>	<u>(\$726)</u>	<u>(\$726)</u>

Note: The fair value of forward exchange contracts is determined by the forward exchange rate.

14. Retirement benefits for employees:

Retirement benefits regulations, which cover substantially all employees of the Company and its subsidiaries, provide for funded or non-funded defined benefit plans or defined contribution plans based on the employee's length of service, position in the respective company and conditions under which the termination of employment occurs. The Companies may pay additional retirement benefits to their retired employees which are not covered by the retirement benefits regulations within the scope of actuarial computation of defined benefits plan obligations.

The Company has established a non-contributory defined benefit pension plan (a tax qualified plan) for a certain portion of the retirement benefits prescribed under the severance indemnity regulations for its employees. Under the pension plan, a retiring employee may elect either a lump-sum payment or annuity payments.

In addition, the Company has sponsored the employees' welfare pension fund plan for substantially all of its employees, together with other companies engaged in a business similar to that of the Company, referred to as the Japan Machine Tool Industry Pension Fund ("JMIPF"), which is a multi-employer defined benefit pension plan established under the Japanese Welfare Pension Insurance Law. However, the dissolution of the fund was approved by the Ministry of Health, Labor and Welfare on November 1, 2016. This employees' pension fund plan is not subject to actuarial computation of accrued retirement benefits for employees recorded in the consolidated balance sheets, because the plan assets corresponding to the Companies' contribution to the plan cannot be computed in a reasonable way. The contributions to this plan are recognized as retirement benefit expenses.

Certain domestic subsidiaries have recognized their defined benefits plan obligations and retirement benefit expenses using the simplified accounting method.

The information for the defined benefit plans as of March 31, 2016 and 2017 and for the years then ended is as follows:

① Changes in balances of the defined benefits plan obligations at beginning and end of the year (excluding the plans recorded under the simplified accounting method) -

	Thousands of yen		Thousands of
	2016	2017	U.S. dollars
			2017
Defined benefits plan obligations at beginning of the year	¥1,690,333	¥1,729,961	\$15,419
Service cost	128,701	133,148	1,186
Interest cost	9,963	10,196	90
Actuarial differences	(10,995)	82,632	736
Retirement benefits paid	(88,041)	(69,817)	(622)
Defined benefits plan obligations at end of the year	<u>¥1,729,961</u>	<u>¥1,886,121</u>	<u>\$16,811</u>

② Changes in balances of the plan assets at beginning and end of the year -

	Thousands of yen		Thousands of
	2016	2017	U.S. dollars
			2017
Plan assets at beginning of the year	¥2,714,739	¥2,742,626	\$24,446
Expected return on plan assets	54,294	54,852	488
Actuarial differences	(48,404)	(21,873)	(194)
Employer contributions	110,037	114,301	1,018
Retirements benefits paid	(88,041)	(69,817)	(622)
Plan assets at end of the year	<u>¥2,742,626</u>	<u>¥2,820,089</u>	<u>\$25,136</u>

③ Reconciliation between the balances of defined benefits plan obligations and plan assets at end of the year and net defined benefit assets recorded in the consolidated balance sheet -

	Thousands of yen		Thousands of
	2016	2017	U.S. dollars
			2017
Defined benefits plan obligations of funded plan	¥1,729,961	¥1,886,121	\$16,811
Plan assets	(2,742,626)	(2,820,089)	(25,136)
	<u>(1,012,664)</u>	<u>(933,968)</u>	<u>(8,324)</u>
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	<u>(1,012,664)</u>	<u>(933,968)</u>	<u>(8,324)</u>
Net defined benefit assets	<u>(1,012,664)</u>	<u>(933,968)</u>	<u>(8,324)</u>
Net liabilities or assets recorded in the consolidated balance sheet	<u>(¥1,012,664)</u>	<u>(¥933,968)</u>	<u>(\$8,324)</u>

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of
	2016	2017	U.S. dollars
			2017
Service cost	¥128,701	¥133,148	\$1,186
Interest cost	9,963	10,196	90
Expected return on plan assets	(54,294)	(54,852)	(488)
Actuarial differences	<u>(161,055)</u>	<u>(83,655)</u>	<u>(745)</u>
Retirement benefit expenses related to the defined benefit plans	<u>(¥76,685)</u>	<u>¥4,837</u>	<u>\$43</u>

⑤ Adjustments of defined benefit plans –

Adjustments of defined benefit plans (before net of tax effect) are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial differences	¥198,464	¥188,160	\$1,677
Total	¥198,464	¥188,160	\$1,677

⑥ Unrecognized adjustments of remeasurements of defined benefit plans -

Unrecognized adjustments of remeasurements of defined benefit plans (before net of tax effect) are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized actuarial differences	(¥116,903)	¥71,257	\$635
Total	(¥116,903)	¥71,257	\$635

⑦ Plan assets -

1) Components of plan assets

Share by asset category in the total plan assets is as follows:

	2016	2017
Bonds	70%	68%
Equities	27%	29%
Cash and bank deposits	3%	3%
Total	100%	100%

2) Method for determining the expected long-term rate of return on plan assets

Expected long-term rate of return on plan assets is determined by considering the current and projected plan asset allocations, as well as current and expected long-term investment returns from the various assets that compose the plan assets.

⑧ Principal actuarial assumptions -

The assumptions used in the above actuarial computations for the years ended March 31, 2016 and 2017 were as follows:

	<u>2016</u>	<u>2017</u>
Discount rate	0.59%	0.59%
Expected return ratio on plan assets	2.00%	2.00%

(a) Defined benefit plans recorded under the simplified accounting method -

① Changes in balances of the net defined benefit liabilities at beginning and end of the year for the plans recorded under the simplified accounting method -

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2016</u>	<u>2017</u>	<u>2017</u>
Net defined benefit liabilities at beginning of the year	¥59,816	¥63,351	\$564
Retirement benefits expenses	8,243	12,626	112
Retirement benefits paid	(4,708)	-	-
Net defined benefit liabilities at end of the year	<u>¥63,351</u>	<u>¥75,978</u>	<u>\$677</u>

② Reconciliation between the balances of defined benefits plan obligations and plan assets at end of the year and net defined benefit liabilities or assets recorded in the consolidated balance sheet -

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2016</u>	<u>2017</u>	<u>U.S. dollars</u>
			<u>2017</u>
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Defined benefits plan obligations of unfunded plan	<u>63,351</u>	<u>75,978</u>	<u>677</u>
Net liabilities or assets recorded in the consolidated balance sheet	63,351	75,978	677
Net defined benefit liabilities	<u>63,351</u>	<u>75,978</u>	<u>677</u>
Net liabilities or assets recorded in the consolidated balance sheet	<u>¥63,351</u>	<u>¥75,978</u>	<u>\$677</u>

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2016 and 2017 calculated by the simplified accounting method were ¥8,243 thousand and ¥12,626 thousand (\$112 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2016 and 2017 were ¥31,658 thousand and ¥54,840 thousand (\$488 thousand), respectively.

(c) Multi-employer pension plan -

① Funded status of the multi-employer pension plan -

The funded status of the multi-employer pension plan as of March 31, 2016 and 2017 was as follows:

	Millions of yen		Millions of
	2016	2017	U.S. dollars
			2017
Plan assets	¥141,419	¥ -	\$ -
Total amount of the pension obligations and minimum reserve amount based on the calculation of pension financing in the scheme	157,293	-	-
Net balance	(¥15,874)	¥ -	\$ -

② The Company's share in contributions to the plan -

The Company's contributions to the multi-employer plan represented 1.63% of those in total to the plan for the year ended March 31, 2016.

③ Supplementary explanation -

The net balance at March 31, 2016 on the schedule above resulted mainly from the past service cost of ¥21,107 million. Amortization period of the past service cost is 20 years. The share as described in ② above does not represent the Company's actual share in the obligations of the plan.

The Company's contributions to the multi-employer pension plan, which the Company has accounted for as if it were a defined contribution plan, for the years ended March 31, 2016 and 2017 were ¥88,622 thousand and ¥41,875 thousand (\$373 thousand), respectively.

The JMIPF, in which the Companies had participated, dissolved with authorization from the Ministry of Health, Labor and Welfare on November 1, 2016. Therefore, the funded status of the plan, the share in contribution to the plan, and the supplementary explanation for the year ended March 31, 2017 are not disclosed. Any additional expense related to the dissolution of the fund is not expected.

15. Stock options:

No stock options were granted during the years ended March 31, 2016 and 2017.

16. Income taxes:

Deferred tax assets and liabilities as of March 31, 2016 and 2017 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets - current:			
Accrued enterprise taxes	¥ 53,210	¥ 70,624	\$ 629
Accrued bonuses	248,180	279,909	2,494
Inventory write-down	8,436	7,832	69
Unrealized intercompany profit in inventories	88,756	100,935	899
Accrued social insurance premium	26,654	30,542	272
Others	34,069	25,984	231
Net deferred tax assets - current	<u>¥459,309</u>	<u>¥515,829</u>	<u>\$4,597</u>
Deferred tax assets – non-current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥6,302	¥7,066	\$62
Net defined benefit liabilities	15,759	18,226	162
Others	7,564	219,223	1,954
Net deferred tax assets - non-current	<u>¥29,626</u>	<u>¥244,516</u>	<u>\$2,179</u>

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax liabilities - current:			
Others	¥ -	(¥6,535)	(\$58)
Net deferred tax liabilities - current	¥ -	(¥6,535)	(\$58)
Deferred tax liabilities - non-current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥122,256	¥123,767	\$1,103
Devaluation loss on golf club memberships	5,771	5,733	51
Devaluation loss on investment securities	38,371	68,641	611
Reserve for retirement benefits for executive officers	27,576	28,785	256
Unrealized gains on available-for-sale securities	(1,768,022)	(2,311,814)	(20,606)
Undistributed earnings of foreign subsidiaries and an affiliated company	(511,462)	(133,993)	(1,194)
Net defined benefit assets	(310,887)	(284,860)	(2,539)
Others	(144,526)	(147,897)	(1,318)
Net deferred tax liabilities - non-current	(¥2,540,924)	(¥2,651,636)	(\$23,635)

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2017 is as follows:

	2017
Statutory tax rate	30.7%
Increase (decrease) in taxes resulting from:	
Permanent differences - dividend income, etc.	0.1
Tax credit relating to research and development expenses	(1.3)
Gain on step acquisitions	(19.6)
Others, net	(0.9)
Actual effective tax rate	9.0%

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2016 was omitted due to immateriality.

17. Business combination:

Business combination through acquisition

(a) Overview of business combination -

① Name of acquired company and description of the business:

Name of the acquired company:

Harmonic Drive AG

Description of the business:

Development, manufacture, and sale of speed reducers and mechatronics products in Europe (Deutschland)

② Purpose of the business combination:

Harmonic Drive AG, an equity method affiliate, based in Limburg, Hessen, Germany, is a company that has secured many blue-chip customers mainly in Europe, leveraging its excellent marketing and engineering capabilities.

Going forward, with the acceleration of Industry 4.0 as advocated by the German government, the manufacturing industry is expected to undergo major changes in Europe, such as an increase in factory automation equipment allowing for more flexible production, and expansion of the market for robots that can operate alongside human workers.

In order to gain a solid foothold in the global market, the management of the Company have come to the conclusion that it is necessary to further strengthen our capital relationship with Harmonic Drive AG, which serves as the Company's principal base of operations for sales, manufacturing, and development in Europe, by acquiring additional shares in the firm, thereby making it the Company's subsidiary.

③ Date of the business combination:

March 22, 2017 (Share acquisition date)

December 31, 2016 (Deemed acquisition date)

④ Legal form of the business combination:

Share acquisition in the form of cash consideration

⑤ Name of the company after the business combination:

Harmonic Drive AG

⑥ Acquired voting rights:

Ratio of voting rights owned prior to the acquisition of shares	36.8%
Ratio of voting rights acquired on the date of business combination	37.9%
Ratio of voting rights after acquisition	74.7%

⑦ Determination of the acquiring company:

A subsidiary of the Company acquired the shares of Harmonic Drive AG in the form of cash consideration and therefore became the acquiring company.

(b) Period for which the results of operation of the acquired company is included in the consolidated financial statements:

The fiscal year-end date of Harmonic Drive AG is December 31. Since there is not a difference in excess of three months with the end of the fiscal year for the consolidated financial statements, the financial statements of Harmonic Drive AG for the fiscal year then ended are used in the consolidated financial statements. As the deemed acquisition date is set on December 31, 2016, which is the fiscal year-end date of Harmonic Drive AG, its balance sheet has been consolidated and the profit and loss statement has not been included in the consolidated financial statement for the year ended March 31, 2017.

(c) Acquisition cost and breakdown:

	Thousands of yen	Thousands of U.S. dollars
Fair value of shares held before business combination	¥18,356,216	\$163,617
Fair value of shares additionally acquired at business combination	31,467,800	280,486
Total acquisition cost	¥49,824,016,	\$444,103

(d) Acquisition-related costs and breakdown:

	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
Advisory costs and other	<u>¥151,452</u>	<u>\$1,349</u>

- (e) Difference between the acquisition cost of the acquired company and the total acquisition cost of individual transactions leading to the acquisition:

	Thousands of yen	Thousands of U.S. dollars
Gain on step acquisitions	¥13,963,373	\$124,461

- (f) Amount of goodwill recognized, reason for recognition, amortization method and amortization period -

- ① Amount of goodwill recognized:

Euro 278, 304 thousand (¥33,338,073 thousand (\$297,157 thousand))

- ② Reason for recognition:

Future business activities are expected to generate future economic benefits.

- ③ Amortization method and amortization period:

Straight-line method over 20 years.

- (g) Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date -

	Thousands of yen	Thousands of U.S. dollars
Current assets	¥4,280,792	\$38,156
Fixed assets	2,822,314	25,156
Total assets	¥7,103,107	\$63,313
	Thousands of yen	Thousands of U.S. dollars
Current liabilities	¥1,375,576	\$12,261
Non-current liabilities	930,502	8,293
Total liabilities	¥2,306,079	\$20,555

- (h) Hypothetical impact on consolidated financial results if the business combination had been completed at the beginning of the fiscal year ended March 31, 2017 -

	Thousands of yen	Thousands of U.S. dollars
Sales	¥11,415,287	\$101,749

(Method of Calculating the Estimated Amount)

The calculation of the hypothetical amount is based on the consolidated statements of income of Harmonic Drive AG for the year ended December 31, 2016.

This information has not been audited by the independent auditor.

18. Segment information:

(a) Overview of the reportable segments -

The reportable segments of the Company are business units of the Companies for which separate financial information can be obtained and the Board of Directors examines such information on a regular basis to determine the allocation of management resources and evaluate the business performance.

The Company is engaged in the manufacturing and sales of precision speed reducers, precision actuator and related motion control products, and the business operations fall within a single industry segment based on similarities in the type, nature, manufacturing method and markets of their products.

The geographic markets of the products of the Company are Japan (including the Asia area), North America and Europe, and the products are marketed by the Company and its subsidiaries in Japan, by subsidiaries in the United States and by an affiliated company in Europe, respectively.

As a result, the Company consists of three reportable segments: Japan, North America and Europe, which are consistent with the geographic segment based on the manufacturing and sale of the products.

(b) Accounting method of sales, profit/loss, assets and other items by each reportable segments -

Accounting methods used at the reportable segments are identical to the descriptions in “Summary of significant accounting policies”.

The profit by the reportable segment is based on the ordinary profit. The transfer prices of inter-segment transactions are based on the market price.

(c) Sales, profit/loss, assets and other items by each reportable segment -

For the year ended March 31, 2016	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥23,428,225	¥4,850,188	¥ -	¥28,278,413	¥ -	¥28,278,413
Inter-segment	1,592,253	-	-	1,592,253	(1,592,253)	-
Total	<u>¥25,020,478</u>	<u>¥4,850,188</u>	<u>¥ -</u>	<u>¥29,870,667</u>	<u>(¥1,592,253)</u>	<u>¥28,278,413</u>
Segment profit/(loss)	¥8,570,248	¥786,260	¥51,176	¥9,407,685	(¥1,577,870)	¥7,829,815
Segment assets	¥22,730,785	¥4,607,263	¥4,785,721	¥32,123,770	¥16,626,130	¥48,749,900
Others						
Investment in affiliated companies	¥133,262	¥ -	¥4,785,721	¥4,918,983	¥ -	¥4,918,983
Increase in tangible and intangible fixed assets	2,524,652	197,519	-	2,722,171	-	2,722,171

- The adjustment for segment profit/(loss) of (¥1,577,870) thousand includes the eliminated profit of the inter-segment transactions of (¥488,397) thousand and the general administrative expenses of (¥1,089,472) thousand that are not allocated to any reportable segment. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market (to an affiliated company) and Asian market.
- “Europe” segment is covered by the affiliated company in Germany. Therefore, the Company uses the “Equity in income of affiliated companies” as the “segment profit/(loss)”.
- The adjustment for segment assets of ¥16,626,130 thousand includes inter-segment elimination of (¥439,388) thousand and corporate assets of ¥17,065,519 thousand that are not allocated to any reportable segment. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

Thousands of yen						
Reportable segment						
For the year ended March 31, 2017	Japan	North America	Europe	Total	Adjustment	Consolidated
Sales:						
Third party	¥25,494,531	¥4,574,526	¥ -	¥30,069,057	¥ -	¥30,069,057
Inter-segment	1,331,302	2,040	-	1,333,342	(1,333,342)	-
Total	<u>¥26,825,834</u>	<u>¥4,576,566</u>	<u>¥ -</u>	<u>¥31,402,400</u>	<u>(¥1,333,342)</u>	<u>¥30,069,057</u>
Segment profit/(loss)	¥8,877,688	¥704,995	¥134,981	¥9,717,666	(¥1,758,794)	¥7,958,872
Segment assets	¥59,631,599	¥5,053,210	¥6,956,322	¥71,641,132	¥16,093,312	¥87,734,445
Others						
Investment in affiliated companies	¥143,814	¥ -	¥ -	¥143,814	¥ -	¥143,814
Increase in tangible and intangible fixed assets	5,255,204	304,789	590,783	6,150,777	-	6,150,777
Thousands of U.S. dollars						
Reportable segment						
For the year ended March 31, 2017	Japan	North America	Europe	Total	Adjustment	Consolidated
Sales:						
Third party	\$227,244	\$40,774	\$ -	\$268,019	\$ -	\$268,019
Inter-segment	11,866	18	-	11,884	(11,884)	-
Total	<u>\$239,110</u>	<u>\$40,792</u>	<u>\$ -</u>	<u>\$279,903</u>	<u>(\$11,884)</u>	<u>\$268,019</u>
Segment profit/(loss)	\$79,130	\$6,283	\$1,203	\$86,617	(\$15,676)	\$70,941
Segment assets	\$531,523	\$45,041	\$62,004	\$638,569	\$143,446	\$782,016
Others						
Investment in affiliated companies	\$1,281	\$ -	\$ -	\$1,281	\$ -	\$1,281
Increase in tangible and intangible fixed assets	46,842	2,716	5,265	54,824	-	54,824

- The adjustment for segment profit/(loss) of (¥1,758,794) thousand ((\$15,676) thousand) includes the eliminated profit of the inter-segment transactions of (¥664,813) thousand ((\$5,925) thousand) and the general administrative expenses of (¥1,093,980) thousand ((\$9,751) thousand) that are not allocated to any reportable segment. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- “Europe” segment is covered by the affiliated company, Harmonic Drive AG, which was a company to which the equity method was applied for the year ended March 31, 2016, and subsequently became a consolidated subsidiary through acquisition of additional shares. The “segment profit/(loss)” is the aggregation of the “Equity in income of affiliated companies” of the terms applied by the equity method.
- The adjustment for segment assets of ¥16,093,312 thousand (\$143,446 thousand) includes inter-segment elimination of (¥242,772) thousand ((\$2,163) thousand) and corporate assets of ¥16,336,085 thousand (\$145,610 thousands) that are not allocated to any reportable segment. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.
- Segment assets of “Europe” segment includes the assets of Harmonic Drive AG, which was a company to which the equity method was applied for the year ended March 31, 2016, and subsequently became a consolidated subsidiary through acquisition of additional shares at March 22, 2017.

(d) Information regarding amortization and balance of goodwill by reportable segment

-

The Company had no goodwill at March 31, 2016.

For the year ended March 31, 2017	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Balance of goodwill	33,338,073	-	-	33,338,073	-	33,338,073

For the year ended March 31, 2017	Thousands of U.S. dollars						
	Reportable segment					Adjustment	Consolidated
	Japan	North America	Europe	Total			
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Balance of goodwill	297,157	-	-	297,157	-	297,157	

(e) Related information –

① Information by products/service -

Sales to third parties	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Speed reducers	¥ 22,362,820	¥ 24,059,318	\$ 214,451
Mechatronic products	5,915,593	6,009,739	53,567
	<u>¥28,278,413</u>	<u>¥30,069,057</u>	<u>\$268,019</u>

The sales of the subsidiary, Winbel Co., Ltd., which is engaged in the development, manufacturing and sales of the Magnetic application equipment, are classified as mechatronic products.

② Geographic information –

Sales:

	Thousands of yen				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2016:					
Total	<u>¥17,082,280</u>	<u>¥4,850,188</u>	<u>¥2,174,963</u>	<u>¥4,170,981</u>	<u>¥28,278,413</u>
For the year ended March 31, 2017:					
Total	<u>¥19,506,623</u>	<u>¥4,574,526</u>	<u>¥1,798,840</u>	<u>¥4,189,068</u>	<u>¥30,069,057</u>

Thousands of U.S. dollars					
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2017:					
Total	\$173,871	\$40,774	\$16,033	\$37,339	\$268,019

- Sales are classified into the countries and areas as shown in the schedule above based on the location of the customers.
- Sales to Europe represent the sales to the affiliated company, Harmonic Drive AG.

Tangible fixed assets:

Thousands of yen				
	Japan	North America	Europe	Total
March 31, 2016:				
Total Assets	¥8,955,958	¥851,367	¥ -	¥9,807,326
March 31, 2017:				
Total Assets	¥11,080,345	¥1,105,642	¥ 2,458,611	¥14,644,599

Thousands of U.S. dollars				
	Japan	North America	Europe	Total
March 31, 2017:				
Total Assets	\$98,764	\$9,855	\$ 21,914	\$130,533

③ Information of major customers -

Customer Name	Thousands of yen		Thousands of U.S. dollars	Related Segment
	2016	2017	2017	
Haneda & Co., Ltd.	¥ 3,899,892	¥ 4,104,872	\$ 36,588	Japan

(f) Impairment loss information of fixed assets by reportable segment -

No impairment loss was recognized on fixed assets for the years ended March 31, 2016 and 2017.

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2016 and 2017.

19. Transactions with related parties:

(a) Transactions with related parties -

Category	Affiliated company
Entity name	Harmonic Drive AG
Location	Land Hessen, Germany
Capital	Euro 1,550 thousand
Description of business	Manufacturing and sales of precision speed reducers
Share of shareholders voting rights	36.8% directly owned
Description of relationship	
- Sharing of directors	None
- Business relationship	Sales of the Company's products and the OEM products in Europe, Middle and Near East, Africa, India and South America
Business relationship	Sales of the Company's products

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2016</u>	<u>2017</u>	<u>2017</u>
For the year:			
Sales to the affiliated company	¥2,174,963	¥1,798,840	\$16,033
At year-end:			
Accounts receivable, trade	512,326	306,833	2,734

- Sales of the Company's products to Harmonic Drive AG are executed on the terms and conditions based on the offer of Company's sales prices to Harmonic Drive AG by taking the market into consideration and the negotiation with Harmonic Drive AG.
- Harmonic Drive AG, which was a company to which the equity method was applied for the year ended March 31, 2016, became a consolidated subsidiary through acquisition of additional shares. The above is the aggregation of the transaction of the terms applied by the equity method.

(b) Notes to a significant affiliated company -

The condensed financial information of the significant affiliated company, Harmonic Drive AG, is as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
March 31:			
Current assets	¥4,840,251	¥4,280,792	\$38,156
Fixed assets	2,393,092	2,543,262	22,669
Investments and other assets	444,498	279,051	2,487
Current liabilities	1,486,403	1,375,576	12,261
Long-term liabilities	907,831	930,502	8,293
Net assets	5,283,606	4,797,027	42,758
For the year ended March 31:			
Sales	9,933,039	11,415,287	101,749
Income before income taxes	1,404,780	1,739,938	15,508
Net income	761,471	1,108,960	9,884

(Note)

- Harmonic Drive AG became a consolidated subsidiary at March 22, 2017 and its balance sheet has been consolidated for the year ended March 31, 2017.

20. Net income per share information:

The computation of net income per share is based on the weighted-average number of common shares outstanding during each year. Treasury stocks held during these years are excluded from the weighted-average number of common shares outstanding.

	Yen		U.S. dollars
	2016	2017	2017
Net assets per share	¥405.28	¥600.46	\$5.35
Net income per share	54.60	215.42	1.92

(Note)

- Diluted net income per share are not computed because the Company does not have any potential dilutive shares.

Net income used in the computation of basic net income per share is as follows:

	Thousands of yen		Thousands of U.S. dollars
	2016	2017	2017
Profit attributable to owners of the parent	¥5,001,654	¥19,732,045	\$175,880
Profit attributable to common stock owners of the parent	¥5,001,654	¥19,732,045	\$175,880

The weighted average number of shares used in the computation of basic net income per share is as follows:

	Number of shares	
	2016	2017
Weighted average number of shares	91,597,107	91,597,107

21. Subsequent events:

There have been no significant subsequent events on or after April 1, 2017.

22. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2016 and 2017.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2016	Balance at March 31, 2017	Balance at March 31, 2017		
Short-term borrowings	¥40,000	¥15,025,509	\$133,929	0.1	-
Current portion of long-term debt	211,519	191,448	1,706	0.5	-
Current portion of lease obligations	54,452	46,607	415	1.1	-
Long-term debt (excluding current portion)	640,718	449,270	4,004	0.5	2018-2022
Lease obligations (excluding current portion)	160,338	122,322	1,090	0.7	2018-2022
Other	-	-	-	-	-
Total	<u>¥1,107,027</u>	<u>¥15,835,156</u>	<u>\$141,145</u>	-	-

- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2017 are as follows:

March 31, 2017	Thousands of yen			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
Long-term debt	¥186,108	¥119,777	¥73,208	¥70,177
Lease obligations	32,696	30,128	30,221	27,717

March 31, 2017	Thousands of U.S. dollars			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
Long-term debt	\$1,658	\$1,067	\$652	\$625
Lease obligations	291	268	269	247

- The average interest rate represents the weighted-average rate applicable to the year-end balance.

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2016 and 2017 were omitted due to immateriality.

(d) Others -

The condensed financial information of each quarter for the year ended March 31, 2017 is as follows:

	Thousands of yen (Net income per share: yen)			
	3 months ended June 30, 2016	6 months ended September 30, 2016	9 months ended December 31, 2016	12 months ended March 31, 2017
Sales	¥7,264,884	¥14,550,957	¥21,906,924	¥30,069,057
Income before income taxes	2,050,226	4,131,581	5,886,318	21,874,925
Profit attributable to owners of the parent	1,364,343	2,752,915	4,210,795	19,732,045
Net income per share	¥14.90	¥30.05	¥45.97	¥215.42

	Thousands of U.S. Dollars (Net income per share: U.S. Dollars)			
	3 months ended June 30, 2016	6 months ended September 30, 2016	9 months ended December 31, 2016	12 months ended March 31, 2017
Sales	\$64,755	\$129,699	\$195,266	\$268,019
Income before income taxes	18,274	36,826	52,467	194,981
Profit attributable to owners of the parent	12,161	24,537	37,532	175,880
Net income per share	\$0.13	\$0.26	\$0.40	\$1.92

	Yen			
	3 months ended June 30, 2016	3 months ended September 30, 2016	3 months ended December 31, 2016	3 months ended March 31, 2017
Net income per share	¥14.90	¥15.16	¥15.92	¥169.45

	U.S. Dollars			
	3 months ended June 30, 2016	3 months ended September 30, 2016	3 months ended December 31, 2016	3 months ended March 31, 2017
Net income per share	\$0.13	\$0.13	\$0.14	\$1.51